

DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: 06/05/2019
POSITION: Oppose

BILL NUMBER: AB 411
AUTHOR: Stone, Mark
RELATED BILLS: SB 532

BILL SUMMARY: Redevelopment: City of Santa Cruz: bond proceeds: affordable housing.

This bill authorizes the City of Santa Cruz (City) to expend their 2011 bond proceeds on local housing projects.

FISCAL SUMMARY

Any funds remaining after the Successor Agencies of the former redevelopment agencies (SA) have paid the former redevelopment agency's (RDA) Enforceable Obligations are distributed by the County Auditor-Controller to the affected taxing entities according to their property tax share, and are colloquially referred to as residual payments. The residual payments received by the K-14 schools generally offset the state's Proposition 98 General Fund obligation. Therefore, any residual payments diverted from K-14 schools will generally need to be backfilled by the state, on a dollar-for-dollar basis, under the Proposition 98 school funding mechanism.

The 2019 Budget Act assumes that statewide K-14 schools will receive approximately \$2.1 billion in residual payments in 2019-20, thereby generating a commensurate amount of Proposition 98 General Fund Savings.

The Santa Cruz County Auditor-Controller reports that the City's K-14 schools receive approximately 71 percent of the residual payments. The Auditor-Controller also reported that the City has received approximately \$8.4 million in residuals through the redevelopment dissolution process.

By allowing the expenditure of the City's 2011 bonds, the annual principal and interest payments will be approximately \$1.6 million per year until 2026. These payments would divert approximately \$1.1 million per year away from the City's K-14 schools, resulting in an additional \$1.1 million in state General Funds needed to meet the Proposition 98 funding requirements.

COMMENTS

Finance opposes this bill for the following reasons:

- By allowing the City of Santa Cruz to expend proceeds from bonds issued subsequent to December 30, 2010, this bill reduces the out-year anticipated Proposition 98 General Fund savings by approximately \$1.1 million per year. In addition, it deprives the other affected taxing entities (Santa Cruz County and special districts located therein) of residual distributions.
- Enactment of this legislation will create a precedent for SAs to circumvent the redevelopment dissolution process.

Existing law eliminated the state's approximately 400 RDAs and replaced each with an SA. Operating under the purview of both a locally appointed Oversight Board and Finance, the SAs use the property tax revenue that would otherwise have accrued to the former RDAs to pay the Enforceable Obligations of the

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Department Deputy Director		Date	
Governor's Office:	By:	Date:	Position Approved _____ Position Disapproved _____
BILL ANALYSIS			Form DF-43 (Rev 03/95 Buff)

Stone, Mark

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COMMENTS (continued)

former RDAs.

Current law authorizes issuance of a Last and Final Recognized Obligation Payment Schedule (ROPS). Once the Last and Final ROPS is approved by Finance, SA's are allowed to expend a certain percentage of the post 2011 bond proceeds in a manner consistent with the original bond covenants. The City was approved for a Last and Final ROPS, and is allowed to expend 35 percent of their 2011 bonds.

Current dissolution law prohibits SAs from expending the proceeds of bonds issued after December 31, 2010. The proceeds may only be used to defease the underlying bonds.

This bill allows the City to expend proceeds from bonds issued subsequent to December 30, 2010 for the purposes of increasing, improving, and preserving affordable housing. The bill allows the City to use up to 10 percent of these bond proceeds for affordable housing for persons or families of moderate income, and the remaining of the bond proceeds consistent with the requirements of the Low and Moderate Income Asset Fund, so long as those proceeds are used in a manner consistent with any original bond covenant.

In recent years, several new tools have been created to provide local governments with new tax increment financing options. None of these contain a state General Fund cost, because they do not receive the K-14 schools' share of property tax. Enhanced Infrastructure Financing Districts were created, followed by Community Revitalization and Investment Authorities. These two entities use tax increment to finance long term debt for the funding of infrastructure projects. Annexation Development Plans, and Redevelopment Housing and Infrastructure Agencies were recently created to use tax increment solely for the purpose of proving long term financing for the rehabilitation and construction of affordable housing.

The Legislature has also enacted several measures to fund the construction of affordable housing. In 2017, SB 2 (Chapter 364, Statutes of 2017) was enacted that requires county recorders to collect a \$75 fee on every real estate transaction. Once collected, these fees fund various housing programs.

Also in 2017, SB 3 (Chapter 365, Statutes of 2017) placed a \$4 billion bond initiative on the October 2017 ballot, which was approved by the voters. In addition, voters approved Proposition 2 in 2018 to provide \$2 billion for housing construction for chronically homeless persons experiencing mental illness.

The 2019 Budget Act appropriates \$500 million in funding for Infill Infrastructure Program grants, \$500 million for California Housing Finance Agency's Low-and-Moderate Income Housing Programs, and \$500 million to expand the State Housing Tax Credit Program.

Code/Department Agency or Revenue Type	SO	(Fiscal Impact by Fiscal Year)					
	LA	(Dollars in Thousands)					
	CO	PROP					Fund
	RV	98	FC	2020-2021 FC	2021-2022 FC	2022-2023	Code
6100/Dep of Educ	LA	Yes	C	770 C	770 C	770	0001
6870/Comm College	LA	Yes	C	330 C	330 C	330	0001